

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

File
72

July 19, 1983

Note for:

STAT

In the light of the contention surrounding the East-West economic work program that we undertook last Fall, I thought it would be useful to highlight its accomplishments. I therefore summarized them in a speech last month, and enclose a copy herewith.

W

Allen Wallis

Enclosure:

As stated.

Current
Policy No. 495

A Collective Approach to East-West Economic Relations

June 20, 1983



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by Allen Wallis, Under Secretary for Economic Affairs, before the American Society of Business Press Editors, Chicago, Illinois, June 20, 1983.

My talk this morning is concerned with the effort that the United States and its Japanese, Canadian, and European partners are making to fashion a collective approach to their economic relations with the Soviet Union. As you know, this is a particularly difficult undertaking. The problems lie in the nature of the Soviet system, in the events of the last dozen or so years, and in various economic and geographic differences among the United States and its partners. Nevertheless, the undertaking is succeeding with important concrete and durable results to show for our common efforts.

I will describe some of these results in a few moments, but first I will review briefly how we got where we are and why this process is such a difficult, but at the same time important, undertaking.

Review of East-West Relations

In mid-1983, it is difficult to recall how warm, even euphoric, the atmosphere of East-West relations was in 1972, the heyday of detente. The Soviet Union and the United States had just signed a strategic arms limitation agreement, perceived at the time as an important milestone in limiting arms expenditures and as the prime indicator of relaxation

in Soviet-American relations. President Nixon and Premier Brezhnev exchanged visits and signed numerous agreements. Allies on both sides joined in to create a widespread spirit of East-West detente.

Economic relations, naturally, played a major part in the new atmosphere. The West liberalized its credit terms, and the Soviets took advantage of this liberalization to increase their purchases of Western grain and of technology and equipment that they could make only with difficulty or not at all. Truck assembly lines, entire chemical plants and innumerable pieces of capital equipment were purchased by the Soviets. Both sides experienced economic and political benefits from the increased level of trade.

The theory underlying detente was that a web of economic, scientific, cultural, and political relationships would so interlink Soviet and Western societies that their views on security and other core issues would tend to converge. It was believed that the tangible benefits flowing from economic and other interchanges would encourage Soviet restraint in foreign policy.

In forging economic links with the Soviets, the United States was as eager as any nation to increase the level of its commerce. From 1972 to 1975, U.S. trade with the Eastern bloc nearly tripled. The Pullman Corporation helped the Soviets to set up production lines at the Kama River truck plant, and the Bryant Manufacturing Company sold the

Soviets equipment that allowed it to make miniature ball bearings of extreme precision.

We all know how the hopeful views of East-West relations spawned early in the decade soured at the end of the decade, especially after 1979. Detente, with its web of relationships and incontestable economic benefits to Soviet society, was no barrier at all when Soviet decisionmakers saw opportunities to advance their strategic position through overseas adventurism or outright military aggression. Anyone who had illusions that fundamental Soviet views had changed during detente was quickly disabused of those notions.

It is a familiar litany to describe how the Soviets, in the late 1970s and after, failed to live up to the hopes of a decade earlier. Their sponsorship of Cuban adventures in Africa, their continuing activities in Indochina, their invasion of Afghanistan, their crackdown in Poland, and their involvement in Central America were visible indications that their fundamental values and policies had not been changed at all by a more lenient, friendly, and cooperative attitude on the part of the West. Underlying these aggressive acts, of course, was the massive and unrelenting Soviet military buildup that went far beyond any reasonable notion of what would be needed to defend the U.S.S.R. Even in the area of strategic arms, supposedly restrained by the SALT [Strategic Arms Limitation Talks] agreement, the Soviets continued the most massive buildup in all history.

Western Reevaluation of Relationship

As the Soviets demonstrated that their fundamental values and policies had not changed, Western governments began to reevaluate their economic, political, and security relationships with the East. Attitudes changed quickly in the United States. A pivotal point was our refusal in 1979 to ratify the SALT II Treaty. That has been followed by strenuous efforts to increase our defenses against the Soviet threat. Our allies and partners also concluded, in the various and wondrous ways by which democratic nations reach decisions, that the relaxed policies of a decade earlier were no longer appropriate—perhaps never had been. Soviet behavior made it obviously dangerous to conduct economic relations with the Soviets in ways that underwrite and enhance military capabilities. The danger was underscored by direct use by the Soviets of equipment from the West

to manufacture items for their military. The ship that had embarked so hopefully upon the seas of detente obviously had to come about and chart a new course.

In the economic area, it was hardly a surprise that U.S. attitudes changed more rapidly than those of our European and Japanese partners. European and Japanese trade with the East has always been much more extensive than that of the United States, even before the Russian revolution of 1917. There is a natural complementarity of trade between Eastern raw materials and Western manufactured goods. This factor, combined with geographic proximity, means that East-West trade is much more important to Europeans and Japanese than to Americans.

As Western views changed, differences in the pace with which individual governments reevaluated their positions on East-West economic relations created noticeable tensions within the alliance. Such tensions are, of course, a fact of life in relations among democratic states. It is the job of statesmen to resolve the differences and preserve the fundamental community of values among their respective nations.

It is interesting to trace this change in attitudes, to see how difficult it can be to change course on a major policy question. In announcing his candidacy for president, Ronald Reagan said:

On the foreign front, the decade of the 1980s will place severe pressures upon the United States and its allies. We can expect to be tested in ways calculated to try our patience, to confound our resolve, and to erode our belief in ourselves.

For the most of the last forty years, we have been preoccupied with the global struggle—the competition with the Soviet Union and with our responsibilities to our allies. But too often in recent times we have just drifted along with events, responding as if we thought of ourselves as a nation in decline.

It is now time to take stock of our own house and to resupply its strength.

Our process started within the government with a thorough analysis of East-West economic relations, and the work with the allies began in earnest at the Ottawa economic summit in July 1981. The leaders at Ottawa made a significant statement about East-West relations:

We concluded that consultations and, where appropriate, coordination are necessary to ensure that, in the field of East-West relations, our economic policies continue to be compatible with our political and security objectives.

During the following year, leading up to the summit at Versailles, we worked with our summit partners on a number of specific issues—principally on the problem of European vulnerability to disruption of Soviet gas exports. At Versailles, the leaders again adopted a statement on East-West economic issues, but it was clear that the analyses of the issues by the leaders were different enough to create problems in interpretation and implementation.

Last summer, when Secretary Shultz entered office, he was asked by the President to listen carefully to what our allies and friends were saying. George Shultz is an able and experienced negotiator who appreciates the value of listening. As he listened, he recognized two fundamental facts. First, that there was enough convergence in the views that he heard to give a good chance of reaching agreement on a collective approach to East-West economic relations and, second, that a collective approach would be much more effective than a unilateral approach.

On Secretary Shultz' recommendation, President Reagan last November lifted the restrictions imposed 5 months earlier on the sale of oil and gas equipment to the Soviet Union. In taking this action, the President emphasized that the United States and its European, Japanese, and Canadian partners had agreed to undertake a series of analyses of East-West economic relations designed to provide a framework for a collective approach to these relations. The analyses were undertaken immediately in a variety of locations. It is the results of those analyses that are the core of my message today.

- In the Organization for Economic Cooperation and Development, East-West financial relations and credit terms were examined. Special attention was given to problems stemming from Eastern nations' centralized control of trade. A continuous review of a broad spectrum of problems in East-West economic relations was started.

- The International Energy Agency analyzed the dangers created by undue energy dependence, and it considered alternative sources of energy.

- The North Atlantic Treaty Organization examined the overall security implications of East-West economic relations.

- The Coordinating Committee for Multilateral Security Export Controls (COCOM) studied ways of improving surveillance and control over Western exports that have strategic or military implications.

Basic Framework

While some work is continuing in each of these organizations, major segments of the analyses that were started last November have now been completed. The results achieved thus far provide a basic framework that has been agreed upon by the United States and its partners for the conduct of East-West economic relations. The hopes of President Reagan and Secretary Shultz in undertaking the analyses have been borne out amply by the positive and constructive spirit in which they were conducted and by the results that have been achieved. In fact, the conclusions based on those analyses that had been agreed to before the 1983 summit meeting of industrialized countries made it unnecessary for the seven heads of government to spend much time at Williamsburg on this subject. In the Williamsburg declaration the heads of state and government said:

East-West economic relations should be compatible with our security interests. We take note with approval of the work of the multilateral organizations which have in recent months analyzed and drawn conclusions regarding the key aspects of East-West economic relations. We encourage continuing work by these organizations, as appropriate.

Let me review for you some of the major points on which the leaders based that statement.

First, they recognize that the Soviets use some forms of trade to enhance their military capabilities and that, as a result, we must be vigilant to ensure that economic relations are consistent with our common security interests. While some forms of trade that are conducted on commercially sound terms can benefit both sides, we must insist on a balance of advantages and avoid preferential treatment of the Soviets.

Second, in regard to energy, the United States and its partners recognize that natural gas, with its relatively inflexible supply system, poses particular security problems. We have agreed that, in meeting future gas needs, we will take concrete steps to ensure that no one producer is in a position to exercise monopoly power over industrial countries. Further, we are also acting to encourage the production of natural gas from Norwegian and North American sources, and each nation is improving its safety-net measures in order to be able to deal with any interruptions of supply. The United States and its partners have agreed also to conduct. Regular reviews

of each country's energy policy, giving special attention to dependencies and alternative sources of supply. We believe that these concrete accomplishments will enhance Western energy security and make it more difficult for the Soviets to use its abundant energy resources to extract political gains.

Third, we reached agreement that it is not sensible to continue to give the Soviets the same reductions on interest rates given to newly industrialized countries to finance their imports. Our agreed minimum interest rate for official lending to rich countries, including the Soviets is now 12.4%, nearly two points above the current U.S. prime rate. Also in the area of credits, we are working to improve our ability to monitor credit flows, so that our data on foreign indebtedness will be accurate and up to date.

Finally, in coordinating controls over the export of strategic technology, we are united with our allies in declaring that economic relations should not be permitted to contribute to Soviet military capabilities. At an April high-level meeting with our COCOM partners we explored ways in which the multilateral system of controls could be strengthened. The proceedings of the meeting are confidential, but I can say that the United States is well pleased with the work on improving coordination in export licensing and in the enforcement of controls. We are confident that the results of the COCOM work will reduce the flow of high technology to the East.

As you are aware, none of the organizations within which these analyses were performed (IEA, OECD, NATO, and COCOM), is a supranational body whose recommendations are binding on member states. Indeed, such a rigid arrangement would be antithetical to the spirit of our alliances and friendships with other democratic countries. Instead, the countries with which we have collaborated in these analyses have agreed with us concerning the validity, relevance, and importance of the findings; and they have agreed to take the conclusions strongly into account as they formulate their own national policies. We are confident that the results that have been achieved through this collective approach to East-West economic issues will yield valuable benefits for Western security.

I mentioned earlier that some aspects of the studies are continuing. We are seeking to build on the results that have been achieved thus far and heighten awareness of the security dimension of East-West economic relations. We are starting a process that will examine East-West economic relations as they develop and will provide informed analyses for the use of policymakers. Specific efforts that are in process now include:

- An effort in COCOM to strengthen that organization and examine whether members' security interests require controls on additional high technology items;
- Continuing work within NATO on the security implications of East-West economic relations;
- An analysis in OECD of the balance of economic advantages in East-West trade; and
- The ongoing study I mentioned earlier of national energy policies and Western energy security.

Before I conclude, let me restate our position on East-West economic relations and say why we think this area is so important. First, let me emphasize categorically that we are not waging economic warfare against the Soviet Union. We do not seek to cause the "collapse" of their economy. In fact, we would not want that—that would be a dangerous development. We favor mutually beneficial economic relations where those relations are conducted on commercial terms and where the advantages are mutual and balanced. An example of mutually beneficial trade is agriculture, where a U.S. team is at this moment in Moscow negotiating a new long-term agreement for grain sales to the Soviets.

We must keep in mind, however, that the Soviets vigorously seek to use trade with the West to enhance their strategic position and that they choose to devote 15% of their gross national product to the military—a level far beyond what can possibly be regarded as "defense." They have also not acted as a responsible and restrained member of the international order. As Secretary Shultz put it last week in his statement to the Senate Foreign Relations Committee, unconstructive Soviet behavior has needlessly drawn more and more international problems into the East-West rivalry and made the task of managing our relationship more difficult. In the

light of this, the United States and its partners have agreed to conduct their economic relations with the Soviets in a way that does not give preferential treatment to the Soviets or benefit their military position. It is crucial that we not permit our economic relations with the Soviets to be used in ways that reduce Western security.

Conclusion

To summarize, let me again state that the process of turning away from the economics of detente has been a long

and reluctant one for the United States and its friends and allies. Differences of perception within the alliance and variations in the pace at which views have evolved sometimes have made the path rocky. Yet, through patient and statesmanlike determination, a collective approach to East-West economic relations has been forged.

We are confident that this collective approach has strengthened our common security, just as President Reagan said in his radio address last November 13 that it would. It has provided a sound basis for Western economic policy

toward the East for the rest of the decade and beyond. Perhaps this approach can reduce, at least modestly, the amounts that we must spend each year to defend the values and liberties that we and our partners hold dear. ■

Published by the United States Department of State • Bureau of Public Affairs
Office of Public Communication • Editorial Division • Washington, D.C. • July 1983
Editor: Colleen Sussman • This material is in the public domain and may be reproduced without permission; citation of this source is appreciated.

Bureau of Public Affairs
United States Department of State
Washington, D.C. 20520

Official Business

If address is incorrect
please indicate change. ►
Do not cover or destroy
this address label.

Postage and Fees Paid
Department of State
STA-501

